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US trade policy--a 25-year perspective

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Abstract:

In celebration of its 25th anniversary in April 1997, the International Business-Government Counsellors Inc., publisher of the Washington International Business Report, reflects on the 25 years of reporting US trade policy.

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[Headnote]

International Business-Government Counsellors Washington DC, providing relations organisation research Washington DC, providing information, res. Its Chairman arch and advisory services. Its Chairman an, has contributed informed articles to the European Business contributed informed past. In this articles to the European Business Journal in the past. Business Report, this article, which appeared originally looks back at its Business of reporting on US the organisation looks back at conclusion 25 years that the reporting on US trade policy. Its conclusion is that the Washington environments have become more benign and friendly towards business.

International Business-Government Counsellors Inc. (IBC), the publisher of the Washington International Business Report, celebrated its 25th anniversary in April 1997. When we were founded, the US was still at war in Vietnam and relations between the US and 'Red China' were in deep-freeze. The scandals that would shake the US and the political troubles that would destroy the USSR were still ahead. President Nixon and Soviet leader Brezhnev were trying to pursue detente. Senator Russell Long at the Senate Finance Committee and Congressman Wilbur Mills at House Ways and Means shaped tax and trade policy from seemingly secure seats of power. At the White House a Council on International Economic Policy (CIEP) was in place.

Over the past quarter century we have seen and written about the end of the Cold War, the collapse of Marxism, and the victory of 'market economics'. Blatant 'protectionism' has been generally discredited. We have seen remarkable progress in reducing tariffs and nontariff trade barriers. There has been major integration of trade through regional agreements (the European Single Market, NAFTA) and international trade rounds (Tokyo, Uruguay); a new World Trade Organization; and an expanded idea of what trade means.

Today, there are new challenges. The impact of the information technology revolution is profound and not understood. The end of the Cold War has brought in a period of 'supercapitalism'. The slow but steady opening of markets and foreign investment in developing countries in Latin America and Asia has resulted in opportunities everywhere; almost all countries and states are fighting for investments; everyone worries about the 'bottom line'. There has been great progress in international cooperation to

set rules for global markets and trade, and we are beginning to build new case law in the World Trade Organization. But there has been relatively little action yet on disciplines for investment, on the coordination of national economic policies, or on 'social' issues affecting people. The 'market' has won, but the market can't do everything. As reflected in the debate over linking labor and environmental issues to trade policy, it is not clear where the market ends, and where the public sector and social responsibilities have to take over. Nor is it clear what effect the global economy will have on the nation-state - intellectual business guru Peter Drucker says 'we don't need it anymore'.

The past quarter century in Washington has given rise to a political culture where foreign policy sometimes becomes almost a game to be played in the domestic political tug-of-war, and where many foreign policy judgments seem to be justified on self-interest rather than leadership grounds. A major challenge for America's foreign policy leadership will be to sustain adequate resources and public support and at the same time carry its power with responsibility and restraint.

How did we get here? A look back

The 1970s

This was a turbulent, important and intensely active time for international business in its relations with government, spurring the development of the international public affairs function in companies. The 1970s was the decade when recognition of globalization really began. The Nixon Administration launched international trade negotiations to reduce nontariff barriers and other impediments to global trade. Critics of 'multinational corporations' were loud and vocal, and there were many proposals to restrict international trade. In the Senate, Frank Church led a special Foreign Relations Subcommittee on Multinational Corporations that investigated global corporate activities with a very critical eye. And at the request of the labor movement, Indiana's Senator Vance Hartke and Massachusetts Congressman Jim Burke put together a trade/tax/investment package that combined quotas with repeal of international tax deferral and the foreign tax credit and many other provisions that shocked American international companies and traditional devotees of 'free trade'.

In the 1970s, WIBR wrote of growing worries about trade deficits. The 'record' deficit for 1972 was about \$6 billion. Trade policy was front and center in Washington, and the Trade Act of 1974 was seminal, among other things establishing Section 301 for unfair trade complaints, Title IV emigration provisions that continue to affect trade with former Communist countries and China, the Generalized System of Preferences and the first version of Fast Track negotiating authority.

Other issues of the 1970s: Taxing of foreign source income was identified as a priority in Burke-Hartke and brought many proposals for repeal/change of the Domestic International Sales Corporation (DISC), foreign tax credit, Section 861, and other tax provisions. Improper payments became a major preoccupation on Capitol Hill and there were recommendations that the OECD take up the issue. Two gentlemen who were to become casualties of ABSCAM - Senator Harrison Williams and Congressman John Murphy - led an effort to outlaw payments to foreign government officials. The Foreign Corrupt Practices Act finally became law in 1977. Codes of Conduct were under active discussion, and developing countries were proposing a New International Economic Order to curb the freedom of multinational corporations and share global wealth. Henry Kissinger suggested a new International Resources Bank. The US was involved in various sets of 'code' negotiations - the UN Transnational Corporation Commission, UNCTAD on technology transfer, the OECD guidelines, the International Labour Organization code on employment, and a US Congress-European Parliament code that Congressman Sam Gibbons proposed be 'binding' on multinational corporations.

The Arab boycott was taken up in both tax and export control legislation. The Senate vote on the export bill passed 90-1, with only Jesse Helms voting against. Export controls were an issue throughout the 1970s and the whole Cold War period. The Export Administration Act renewal of 1979 was particularly important, establishing a new distribution license, timetables for license processing, and some guidelines on foreign policy controls.

The Carter Administration abolished the CIEP coordinating body, leaving the Administration without a clear central focal point for international economic policy, and leading to efforts by Senators Bill Roth and Abraham Ribicoff to create a Department of International Trade and Investment. It made human rights a priority in international economics, and it tried to focus on export policy, but there were divisions in the Administration. The Carter Treasury Department, particularly Tony Solomon and Fred Bergsten, thought the problem could be solved by floating exchange rates and energy policy. At the Commerce Department, outspoken Under Secretary Frank Weil pushed hard for a more activist approach. The Administration created a Special Task Force and eventually formulated a National Export Policy. An Export Caucus started up in the House.

There was much, much more - President Nixon's visit to China early in the decade led to the switch away from Taiwan and official recognition of Beijing in 1979; pressures on investors in South Africa; efforts to privatize OPIC; the beginnings of the 'free but fair trade' approach; a new policy pushing bilateral investment treaties; foreign environmental 'impact' statements; the tensions in relations with Japan and the special House Ways and Means Task Force led by Jim Jones; emphasis on commodity agreements; the AID reorganization that created IDCA; Congressman Bill Steiger's great victory with the capital gains tax reduction of 1978; and Congressman Al Ulman's disastrous attempt to introduce a value added tax.

The end of the decade saw the conclusion of the Tokyo Round of Trade Negotiations, and the Trade Agreements Act of 1979. Included were significant tariff reductions and codes on government procurement, standards, subsidies, and customs valuation.

The 1980s

The Reagan Revolution began with worries that USTR would be abolished (Ed Meese had reportedly said so) and the targeting of the Eximbank as a 'business subsidy' by OMB Director David Stockman. The big Reagan tax cuts made it necessary to look for waste and potential savings, and adjustment assistance programs felt the pressure, as did OPIC. Most of the Administration's economic policy initiatives were subsidiary to the main theme of economic growth via supply side economics, but there were some other important themes. The USTR/Commerce leadership team of Bill Brock and Malcolm Baldrige proved to be quite effective, with Baldrige targeting 'export disincentives' and identifying a clear export policy that promised more marketing help and the tough enforcement of trade agreements. Brock pressed ahead with efforts to liberalize/negotiate on trade in services and regional agreements. In 1981, President Reagan met with Mexico's President Lopez Portillo and a Bilateral Trade Committee was established, seeding the ground for the future trade agreement.

Other developments: the Administration spent a lot of time on DISC, eventually changing this export tax provision to make it compatible with GATT. There was more attention to foreign investment, and a new position of Assistant USTR for Investment was created. The Administration proposed a Caribbean Basin Initiative and it established 'trilateral' US-Japan-EC trade talks that eventually became the 'quad'. True to its free market philosophy, the Reagan team stressed private sector themes at the World Bank,

and it created a new Bureau of Private Enterprise at AID. Cold War trade policies were at their zenith, and unilateral trade sanctions/extraterritorial application were a problem, especially affecting the USSR. In Europe, US firms worried about the 'Vredeling Proposal' mandating employer consultation on workforce issues. Helmut Kohl was elected in Germany. Mexico had a serious debt crisis. Canada had nationalistic energy policies and Pierre Trudeau. Chile was reorienting under Pinochet.

These were the days when Senators John Heinz and Jack Danforth made 'reciprocity' a theme on Capitol Hill, and Senator Jake Garn was proposing an Office of Strategic Trade for export controls. Customs was carrying out its tough 'Operation Exodus' to crack down on export control problems, and a new Export Trading Company law came into effect. Free Trade Areas with Israel and Canada were created and approved by Congress. The US tried to get a new round of talks going in GATT, and a new commodity classification system (the Harmonized System) was adopted by the major trading countries of the world to categorize merchandise. Talk was beginning about an import surcharge to control the trade deficit. Some in Congress turned a critical eye toward inward foreign investment, and the result was the 'Exon-Florio' Amendment requiring national security 'screening' of foreign mergers and takeovers of US firms.

The later 1980s saw 'competitiveness' become a watchword, with the Administration's Task Force on Industrial Competitiveness followed by a Congressional Caucus, the Competitiveness Council, etc. Congress worked on an **Omnibus Trade** Bill, and Congressman Richard Gephardt tried hard to get an import surcharge included. The **Trade** and Competitiveness **Act** of 1988 was eventually signed into law with many Congressional mandates but lacking the toughest protectionist measures. With Japan, there were import restraint agreements on autos and semiconductors, MOSS talks, and the Toshiba export control scandal. The Commerce Department started its 'EXPORT NOW' program, the Uruguay Round was launched, and in 1988, the President signed the Canada Free **Trade** Agreement.

On President Bush's watch, Communism fell and a New World Order was proclaimed. The President and his USTR Ambassador Carla Hills pushed a consistent policy of expanding trade through the dual track of international negotiations and pressure to open specific markets. Relations with China were stressed. The Bush Administration took on the Mexico FTA negotiations, but it could not conclude the Uruguay Round and left this to President Clinton. One of the most significant legacies of the Bush team was the marker laid down by his last Secretary of State, Larry Eagleburger. In a 1989 speech, 'International Business: Foundation of National Strength', Eagleburger signaled the changed direction in American foreign policy, emphasizing trade and business as important components of national security and foreign policy.

The 1990s

The Clinton Presidency has made adjusting to the international economy and improving access abroad for US exports and investment its theme, and it has carried this out through its domestic proposals and its trade actions and negotiations. The Clinton team finished up the Uruguay Round, and the President got both it and NAFTA approved. The focus on competitiveness has carried over from the 1980s, as has the tough market opening/bilateral negotiation strategy carried out by Carla Hills. Commercial diplomacy and active support for American business interests are central to the Administration's thinking.

Our conclusions

The result, for the private sector, is that the public policy environment has changed enormously over the

past 25 years. In the 1970s, companies looked at suspicion, outright hostility, and a rapid fire environment of specific legislative and regulatory actions that could affect (and probably adversely so) their operations. Today, the Washington and global environments at the policy level are more benign and even friendly. The international competition for investment is real. The corporate mode is much more to focus on doing business through working with government than to fight political attacks from government critics. From the government relations/public affairs perspective the 'doing business' focus implies a global view, global responsibilities, global questions, global contacts. The sheer numbers of companies that have active international trade and investment programs has increased exponentially. The US may be the only political and economic superpower, but for companies the world is multipolar - government relations have gone far 'outside the beltway'.

But the global world is unsettled and unpredictable, an integrated world economy coexisting with the political world of nineteenth century nation states. Countries have realized the advantages of lowering barriers to trade and investment, and an ever growing series of bilateral, sub-regional and regional agreements are being laid in place that challenge the traditional leadership role played by GATT/WTO. In recent years, with the demise of such coordinating bodies as COCOM, we have seen the escalation of efforts, particularly in the Congress, to place unilateral export sanctions on countries deemed to be either national security risks or not respecting basic human rights. This has placed the US at tremendous odds with major trading partners caught in the web of controls. These trends reflect a more strongly articulated skepticism in the US with respect to benefits of trade agreements and accommodating our major allies around the world on foreign policy issues.

For companies, opportunities abound, but it is more important than ever to have sophisticated leadership and programs in place to understand the complexity and challenges of the new environment.

[Author note]

Solveig B. Spielmann, Chairman and Chief Executive Officer, International BusinessGovernment Counsellors Inc., Washington DC, US

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